

NON COMPLIANCE TAX ATTITUDE IS CONSIDERED UNACCEPTABLE IN SMALL BUSSINES

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Abstrak: *Small bussines provide a major economic contribution to society and the state. This sector have been survived Indonesia from 1998 financial crisis. There are significant contribution to Indonesia economic. One global issues for government today is combating tax evasion. Related this issue, this research explore Indonesia small bussines community's perception towards tax compliance. The research aims to establish whether small bussines company view the depth understanding of tax compliance and non compliance. It is explore the reason being compliance and also their intention being non compliance including tax evasion and tax avoidance. It also aims to establish whether a relationship exists between citizens' attitudes towards tax evasion and their demographic characteristics. A survey was undertaken in an owner of small trader in Bangkalan city, East Java Province. Qualitative research is conduct to gain rich data in interpretive paradigm. The survey found that non compliance tax attitude is considered unacceptable. In case they didn't report their tax obligation, it is related to their lack of accounting knowledge.*

Keyword: *Tax Compliance, Tax Evasion, Small Medium Enterprises*

Abstrak: Usaha kecil memberikan kontribusi penting pada masyarakat dan Negara. Sector ini telah ada dan eksis di Indonesia dari krisis keuangan pada tahun 1998. Terdapat kontribusi signifikan terhadap pertumbuhan ekonomi. Salah satu isu global untuk pemerintah hari ini adalah intervensi pajak. Terkait dengan isu ini, penelitian ini mengeksplor persepsi komunitas usaha kecil Indonesia terhadap kesesuaian pajak. Penelitian bertujuan untuk apakah pelaku bisnis memahami kesesuaian pajak atau tidak. Tujuan lainnya juga adalah untuk melihat hubungan antara perilaku masyarakat terhadap intervensi pajak dan karakteristik demografis. Survey dilakukan kepada pemilik usaha yang ada di kota Bangkalan, Provinsi Jawa Timur. Metode kualitatif digunakan untuk membantu menjawab rumusan masalah. Penelitian menemukan bahwa perilaku ketidaksesuaian pajak dianggap tidak patut. Jika mereka tidak melaporkan kewajiban pajaknya, hal ini terjadi dikarenakan mereka memiliki pemahaman yang rendah terhadap akuntansi.

Kata kunci: Kesesuaian Pajak, Intervensi Pajak, Usaha Kecil Dan Menengah

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INTRODUCTION

Taxes have an important role in building a nation. It is citizen obligation to pay taxes. State provides facilities and infrastructure for their people, also serve them for their welfare in education, health, safety etc.

Technically, the tax collected from the gains of economic activity. Corporate taxes that comes from its profit is significant in increasing state revenue.

This research is focused on small and medium enterprises. It is internationally acknowledged that small and medium enterprises (SMEs) play a vital role in enhancing a country's economic growth and in creating jobs (Abrie and Doussy, 2006). Small business owners play an important role in the tax system. (Kamleitner, Korunka, and Kirchler, 2012).

Small medium enterprises have been survived Indonesia from 1998 financial crisis. There are significant contribution to Indonesia economic. In 2012 there are 56.534.592 small medium enterprises with 107.657.509 employees. (Indonesia Government, 2012). Due to the importance of this sector in the country's economy, it is needed to know how tax obligation are implemented among the SME owners.

Previous research of tax behavior in small medium enterprises is explained by Nkwe, 2013. He said that the complex Botswana taxation systems and other myriad of Government compliance requirements have arguably placed this sector at a disadvantage. Taxation is the most critical regulation in compliance (Coleman and Evans 2003).

One global issues for government today is combating tax evasion. Nkwe, 2013, tax behaviour ie non compliance tax become a serious problem in developing countries. In Indonesia, case of "Gayus", explain the ice mountain phenomena of non-compliance tax behaviour, that is seriously related with tax evasion. Related this issue, this research explore Indonesia SME community's perception towards tax compliance. The research aims to establish whether SME community views the depth understanding of tax compliance and non compliance. It is explore the reason being compliance and also their intention being non compliance including tax evasion and tax avoidance. It also aims to establish whether a relationship exists between citizens' attitudes towards tax evasion and a) their demographic characteristics and b) their attitudes towards the tax system and tax environment.

THEORETICAL FRAMEWORK

Small Medium Enterprise Definition

There are diversity in defining small business (Nkwe, 2013). There are some basis to define it such as the amount of sales, total fixed assets, total employee. According to the Law of the Republic of Indonesia Number 9 of 1995 on Small Business, small and medium enterprises defined as follows: "Small business is the economic activities of the people are small-scale and meet the criteria of net worth or annual sales and ownership as stipulated in the Act. Suhairi and Wahdini, 2006, defines small and medium-sized enterprises based on the classification used in the study refers to the Presidential Decree No. 10 of 1999 concerning the empowerment of small and medium businesses. In an effort Presidential Directive established that small and medium-scale classified if it has a net worth equal to or less than Rp10 billion.

Tabel 1. Indonesia SME condition

Businesses	criterion (Rp)		2012	
	assets	omzet	unit	employees
Micro	Less than 50 million	Less than 300 million	55.856.176	99.859.517
Small	> 50 - 500 million	> 300 million - 2,5 billion	629.418	4.535.970

Businesses	criterion (Rp)		2012	
	assets	omzet	unit	employees
Medium	> 500 million - 10 billion	> 2,5 - 5 billion	48.997	3.262.023

Definition of Tax Compliance

Research on tax behaviour is great developed recently. Tax evasion, tax avoidance, tax criminality arise in all of tax problem around the world. There are a lot of cases involved company taxpayer, personal tax payer include the government employee itself.

Tax compliance is the fulfillment of tax obligations by taxpayers in order to contribute to the development of today which is expected in the fulfillment given voluntarily. Tax compliance becomes an important aspect given the Indonesian tax system adopts self assessment and where in the process implicitly giving credence to the taxpayer to calculate, pay and reporting obligations. In explaining taxpayers' compliance behaviour, that is, the reasons why taxpayers comply and do not comply, there are broadly two classes of theories – economic based theories, which emphasize incentives, and psychology-based theories which emphasize attitude (Trivedi & Shehata, 2005).

According to Norman D. Nowak (Moh. Zain: 2004), Taxpayer Compliance own terms, namely "A climate of awareness of compliance and fulfillment of tax obligations, reflected in situations where: 1. Taxpayers understand all the provisions of the tax legislation. 2. Fill out tax forms to complete and clear. 3. Calculate the amount of tax payable correctly. 4. Pay the tax due on time".

Taxation obligations and rights under the above Nurmantu Safri divided into two compliance include formal compliance and compliance material. The formal and material compliance more details identified back in the Decree of the Minister of Finance 544/KMK.04/2000. According to the Decree of the Minister of Finance 544/KMK.04/2000 taxpayer compliance can be identified from " Right on time in delivering all types of tax returns for the last 2 years; does not have delinquent taxes for all types of taxes, unless it has obtained permission to repay or defer payment of taxes, never convicted of a crime in the field of taxation within a period of 10 last year; within the last 2 years to keep books and in the case of the taxpayer ever examination, correction on the final examination for each type of tax due at most 5%; taxpayer's financial statements for the last 2 years audited by a public accountant with an unqualified opinion, or the opinion with the exception of all the income tax does not affect."

Formal compliance is meant by Safri Nurmantu above example, the provisions of the notification deadline for submission of income tax (income tax returns) held on 31 March. If the taxpayer had reported income tax return (Income Tax Return) yearly on or before March 31, then the taxpayer has complied with the formal, but it may not necessarily comply with the material, ie a state in which the taxpayers are complying with the substantive material taxation, the appropriate letter and spirit of tax law. Material compliance can include formal compliance. Taxpayers who meet taxpayer compliance is material that fills with honest, complete, and correct in accordance with the notification letter and submit it to the LTO before the final deadline. From some of the above it can be concluded, understanding tax compliance is the taxpayer who obey and comply with tax obligations in accordance with the provisions of the tax legislation.

Compliance Tax in Indonesia

Wiyoso Hadi, 2013, stated, the problem of how to improve taxpayer compliance is a classic problem as old as the tax dilemma itself. The Directorate General of Taxes (DGT)

itself has taken some endeavors to improve taxpayer compliance, such as the following: (1) dissemination; (2) persuasive approach; (3) proactive method; (4) bettering the tax services; (4) law enforcement; and (5) inviting public leaders and communities to become role models in filing Annual Tax Return. However, the result is still far from the expected.

Based on the data published by the DGT two years ago, there are some interesting facts as follows:

1. The Indonesian population is around 240 million people and the number of business entities (not including micro enterprises) are around 22.6 million business entities
2. The labor force is approximately 110 million people with an average of 12.9 million active business entities, beyond micro enterprises;
3. 8.7 million individual taxpayers and 466 thousand corporations filed their tax returns in 2011;
4. The Individual Tax Return Filing to Population Ratio is 3.5% while the Corporate Tax Return Filing to Active Corporate Ratio amounted to 2.1%;
5. The Individual Tax Return Filing to Individual Taxpayer Ratio is 7.73% while the Corporate Tax Return Filing to Corporate Taxpayer Ratio amounted to 3.6%;
6. Small to Medium Enterprise (SME) Contribution to GDP is 61.9%;
7. High Income Taxpayer Contribution to GDP is 38.1%;
8. Corporate Income Tax Revenue from the SME sector to the Total Corporate Income Tax Revenue is under 3% (for 2009).

Ethics and taxpayers.

Ethic is a study about a behavior based on the "right - wrong" or "exact - not exact" rule (Chandra, 1995). Whereas, the contextual definition explains that the ethical study is a belief that exist on each person, that reflects the ethical belief more specifically about and on the context of the tax bound behavior (Henderson, 2005). The first research that tested the role of ethic in tax obedience was studied by Schwartz and Orleans (1967) that focused on the social commitment aspect of the tax obedience. Next, Jackson and Miliron (1986) developes develops Schwart et al's research by defining ethic into two measurements, which are ethic orientation and ethic evaluation. Ethic orientation directs to general definition of ethic and more associated to the psychology theories about the consistency between the owned behavior and credence (Lindzey, 1985). Whereas, the definition of ethic evaluation is more focused to the contextual ethic definition, which connects the individual attitude and credence, that can be different, according to the problem that is faced. Grasmick and Scott (1982), Kaplan and Reckers (1985) and Reckers et al. (1994), defines ethics in the context of tax obedience behavior as something that is morally wrong or amoral. Psychological process of tax ethic depends on how self-determination and self-esteem is affect by the tax audit, because tax audit can be used as the tax agency to boost the moral of the tax if the taxpayer (Deci; 1999). From the explain that individual behavior have a role make a decision with tax obedience. Public awareness as an obedience taxpayers had connected with the public perception of taxes. Perception itself will to influence taxpayers motivation and motivation to pay the tax and obidience taxpayers to comply with request tax duty (James L Gibson (1991).

Ethics in Small – Medium Enterprise taxpayers

Bernadette Kamleitner, Christian Korunka, Erich Kirchler, (2012): Three key aspects seem to distinguish small business owners' perceptions of their tax situation: small business owners are likely to perceive more opportunities not to comply than employed taxpayers; they are more likely to experience a lack of meaningful taxation knowledge; and they are more likely to face decision frames that render taxes as painful losses.

RESEARCH METHOD

Survey was undertaken in Bangkalan city of East Java Province. There are 121.611 SME- in this city (Department of Cooperatives and SMEs Bangkalan, 2012). Related with the aim of this research, explored deeply the perception of tax compliance, a woman entrepreneur that owned her family business is chosen as key informan. She is chosen for her experienced running her bussiness for almost 50 years. Reliabel informations are compiled by interviewing other informan, such as tax consultant and tax officer - account representative. Qualitative research is conduct to gain rich data in interpretive paradigm. Data are collected by interviewed, observations, and review of documents. Data collection is begin with getting in step, continue with getting along step. There is sufficient interaction among researchers and informan. Data were analyzed with Miles-Huberman Interactive techniques.

RESULT & DISCUSSION

Key informan background.

Mrs T, is the initial for key informan. She is educated woman that graduate from engineering faculty. She is 54 years old. A mother of 2 children. She do not work as office employee related with her decree because she decided to run her family business so she can do her housework and keep her family. Her grocery store located at a busy street in Bangkalan city. The store sell many daily needs. She is a native maduraness that live in this city for almost her life, only while she was in college. She left this for a while. Now, Bangkalan become a developing city, especially after Suramadu bridges, that connected Java Island and Madura is operated. Economics are growing, there are more merchants. Of course, this bussiness competition impacted Mrs T store, recently her profit is decreasing. This situation become harder because of a new government tax regulation for SME. It regulate that SME is not need to make a financial reporting. It is easy to compute the tax, just calculate 1% from total yearly sales. Mrs T was reluctance with this regulation, because the tax is calculate based on total sales (omzet) not based on net profit.

Taxes for Small Medium Enterprises in Indonesia.

Riana, 2008, Indonesia Taxation provisions actually favor small businesses. Small Employers gain because of government facilities do not need to collect VAT, so of course the selling price is 10 % cheaper because they do not need to make a Tax Invoice. Small business criteria that do not need to be a Taxable Person (PKP) has been regulated in the Decree of the Minister of the financial. The government has imposed restrictions on small businesses in the Decree of the Minister of Finance. 571/KMK.03/2003 on Limitation of Small Employers Value Added Tax. In the KMK, the set that limit Small Entrepreneurs are entrepreneurs doing books for a year supply of Taxable Goods and or Taxable Services and the number of gross turnover or gross receipts of not more than Rp600 million . This provision does not distinguish between taxable goods (BKP) or taxable services (JKP) as the previous provisions . So turnover of SME that not more than Rp 600 then the employer does not need to register for VAT purpose.

SME that has turnover excess of Rp 600 million have these obligation.

- 1) Small Employers must report his business to be confirmed for VAT purposes, if up to a month in the fiscal year, the amount of gross turnover, and or gross receipts exceed USD 600 million .
- 2) Small Employers must report his quest to be confirmed as a Taxable Person no later than the end of next month .

- 3) In the case of small-scale businesses do not meet the obligations in accordance with the deadline referred to in paragraph (2), then when the inauguration is the beginning of the month following the month referred to in paragraph (2).
- 4) The obligation to collect, submit, and reporting of Value Added Tax and Sales Tax on Luxury Goods payable by employer referred to in paragraph (1) shall be from when he was inaugurated for VAT purposes

Taxpayer perception of compliance tax

The discussion is focused on compliance tax Nowak's 2004 in Hadi 2013. A climate of awareness of compliance and fulfillment of tax obligations, reflected in 4 situations.

1. Taxpayers understand all the provisions of the tax legislation (Less understanding of tax knowledge). Here are some provision of SME tax legislation.
 - Annual tax provisions on Business Activity: SME companies that have a TIN Personal or individual taxpayer conducting business or independent activities on gross income in one (1) year of less than Rp4.8 billion, - may calculate net income by using deemed profit (NPPN).
 - Individual taxpayers who use the deemed profit Records required to hold a gross income only. (Article 14, paragraph 2 of the Income Tax Act No. 36 of 2008 and Regulation of the Minister of Finance. 01/PMK.03/2007).
 - Annual tax rates for individual taxpayers who own SMEs are :
 - 5 % for taxable income up to Rp50.000.000 , -
 - 15 % for taxable income above Rp50.000.000, - up to Rp250.000.000 , -
 - 25 % for taxable income above Rp250.000.000, - up to Rp500.000.000 ,
 - 30 % for taxable income above Rp500.000.000, -
 - Annual Reporting Tax Personal Tax Return using Form 1770.
 - Personal Income Tax underpayments paid no later than one day prior to reporting . SPT 1770 reported no later than March 31 next year.
 - Reporting delays fined Rp 100,000
 - VAT provisions: SMEs have become the Taxable (PKP) levy VAT at 10% on every delivery of goods or taxable services. SME/PFM should make the Standard Tax Invoice for VAT levies evidence. Depositing VAT under payment later than one day prior to reporting. The submission of VAT returns by the end of next month. The late submission of VAT returns fined Rp500.000, -

As an business owner Mrs T understand that she have to obey government regulation related running her busines. There are four licenses for starting a new business in Indonesia, SIUP - Surat Ijin Usaha Perdagangan (a trade lisenche), TDP - Tanda Daftar Perusahaan (company registration) , notary public document and NPWP - Nomor Pokok Wajib Pajak (tax identification). She has all of the document. Her company is family owned business. Because she doesnt have bookkeeper or employee she asked her sister to do her tax report. It is all she has known. She asked tax government employee, called account representative if she didn't understand about tax regulation. Self assesment system that use Indonesia government, need taxpayer voluntarily collect, pay, submit and report their tax obligation. Due to the tax reform in Indonesia, Tax Office actively sosialized the tax regulation including the new one.

2. Fill out tax forms to complete and clear
Mrs T didn't fill out tax form by herself. She asked the account representative to help her. She negotiated with the account representative about the tax amount, due to her store sale. Every monthand annuallyIndonesia business owner have to report usingTax Personal Tax Return using Form 1770.

3. Calculate the amount of tax payable correctly.
Mrs T, have no experience and knowledge to calculate the tax amount. She has difficulties in accounting. She also do not have expert in accounting and can not afford to pay tax consultant. In 2013, Indonesia government have a new tax regulation, No 46, that rules SMEs tax tariff. Taxpayer do not need calculate by financial report. It is easier, just pay tax for 1% based on sales/omzet. This regulation have pro and contra. Mrs T doesn't agree, she feel 1% from sales is too much. Her operational cost can not cover it.
4. Pay the tax due on time .
Mrs T is a good citizen. She feel she have to pay tax due on time. Her deceased mother have been told her not to pay the tax late. It is good for them to be discipline on tax because it is written in Al Qur an, the moslem holy bible. She is a religious woman so she is afraid to make a sin.

CONCLUSION

The survey found that non compliance tax attitude is considered unacceptable. In case the tax report is not delivered properly, it is related to the lack of accounting knowledge. There are willingness to pay taxes. Taxpayer feel unsecured if they have to be deal with tax government employee. The taxpayer informan want to be a good citizen in a simple way, obey the tax obligation, pay it on time. The difficulties arise because their lack of accounting knowledge.

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